

## **Kentucky Commonwealth University**

### **Case Narrative**

Kentucky Commonwealth University (KCU) is a multi-campus, research university located in the state capital. The college enrolled 19,250 students during the 2001-02 academic year. Of this number, 12,250 were enrolled as undergraduate students, 5,240 were in graduate and/or doctoral programs, and 1,760 were enrolled in first professional schools. The university has 14 colleges and schools with Arts & Sciences enrolling the largest number of students (7,345) and Nursing the smallest number of students at 765 students. The largest graduate enrollment is in Business with 1,145 students while, at the first professional level, Medicine is tops with 735.

The university has a burgeoning research enterprise with more than one-third of the full-time faculty serving as principal investigators. Research expenditures topped \$290 million during FY 2002. Medical research generates the highest level of expenditures at \$108.5 million with the Engineering faculty coming in a distant second at \$53.4 million. Other schools have shown significant growth in research activity with Education quadrupling its activity over the last five years while Public Health more than doubled during the same period.

The campus has 315 buildings and space in several rented facilities. The overall assignable square feet, including rented space, is 16.72 million square feet. The oldest building on campus, Calumet Hall, dates back to 1879 and the newest facility, the undergraduate library, opened in 2001. Deferred maintenance is holding steady but a number of projects will have to be accelerated to avoid serious problems in the coming years. Current policies require that new facilities have a dedicated reserve to assure deferred maintenance does not increase. The policy was established eight years ago, yet exceptions are made on a fairly regular basis.

The accompanying financial statements are presented in accordance with the new GASB reporting standards. The university has enjoyed good financial health during the recent past. As long as private support and research funding continue to climb, the pattern should be maintained. The university is very successful in competition with its peers and pursues research excellence with strategic investments in specific opportunity areas.

The financial statements for the most recently completed fiscal year include the following calculated financial ratios:

|  |       |
|--|-------|
| Primary Reserve Ratio  | 1.17  |
| Return on Net Assets Ratio   | 2.47% |
| Net Operating Revenues Ratio   | 1.06% |
| Viability Ratio  | 5.86  |
| Composite Financial Index (CFI)<br>(using equal weighting of the ratios) | 5.39  |

These ratios have meaning standing alone. The KCU might compare its standing on the ratios alone, compare the ratios as they developed over time, or choose to develop other uses of the ratios appropriate to its specific needs.

The upcoming year provides several strategic opportunities described below. Each initiative is independent of the others and only one can be pursued. The financial implications for each initiative assume that all other factors for the year will remain as they would have been if the initiative were not undertaken. Assuming no initiatives are undertaken, the CFI is expected to increase from 5.39 to 5.89.

**Initiative 1.** KCU has been advised of a donor willing to make a one-time, cash gift designated for the establishment of an aerospace sciences program at the university. The start-up costs of the program have been calculated and it has been determined that the donor's gift will cover approximately 50 percent of the first-year funding for the new program. The balance would have to be obtained from the state or other donors. It appears that the state is receptive to a plan that would reallocate its committed portion of funding for a new materials science research initiative at KCU. Even with these funds, KCU will have to embark on an aggressive fund-raising campaign or reallocate other resources to adequately fund the aerospace program. By its nature, the aerospace program carries a substantial price tag. The limited number of faculty is in high demand and, given the lack of existing infrastructure to support the program, a substantial investment will be required. The impact on the CFI during the first year is a reduction from 5.89 to 5.76.

**Initiative 2.** KCU has an opportunity to participate in a venture to establish a new biological sciences research institute. The partners include the university's academic health center, a local community hospital with a specialty in the field, and a physician's practice group already affiliated with a local independent research institute. The independent research institute is a nonprofit entity but they have suggested that this venture be conducted as a for-profit joint venture. The partners would share the capital costs for the program equally, although the university's share would be covered by reassigning space that previously served as a residence hall for nurses and medical students. Operating costs would have to be funded from other sources. This particular initiative is attractive because it carries the possibility of commercial endeavors to leverage the initial investment. The impact on the CFI is relatively modest in the first year—primarily because the assignment of the residence hall space has little impact on the ratios. However, the operating costs are likely to be substantial. The business plan calls for a very significant start-up to position the venture to attract research funding. The CFI is expected to drop from 5.89 to 5.55 in the first year.

**Initiative 3.** KCU is considering establishing a residential honors college. The college would be open to students from all existing undergraduate colleges. It would be housed in an existing residence hall that would be renovated to provide living quarters for a "principal of the college" and other faculty who would have appointments in the college. In addition, new space would be added to accommodate a dining facility for honors students and faculty, seminar rooms for the exclusive use of the honors college, and other unique features to help create an aura of excellence related to the college. Students would apply for admission to the honors college and, if accepted, would have their room and board charges covered by scholarships. There would be

no special tuition scholarships for these students, although it is anticipated that many of them already would be on merit-based scholarships. The major first-year costs are capital in nature and are not expected to impact the bottom line significantly. As the college enrollment grows with the addition of upper class students in subsequent years, more housing and dining fees will be waived having a negative impact on the bottom line. During the first year, the CFI is expected to remain fairly stable, dropping from 5.89 to 5.87.

**Kentucky Commonwealth University**  
**Statement of Net Assets**  
**As of June 30, 2002**  
(amounts in thousands)

**ASSETS**

|  |                           |
|--|---------------------------|
| Current Assets                                       |                           |
| Cash and cash equivalents                            | \$181,989                 |
| Accounts receivable, net                             | 198,880                   |
| Short-term investments                               | 366,562                   |
| Investments for student loan activity                | 10,527                    |
| Investment trade settlements receivable, net         | 21,650                    |
| Current portion of notes and pledges receivable, net | 10,834                    |
| Prepaid expenses and other assets                    | 36,799                    |
| Total Current Assets                                 | <u>\$827,241</u>          |
| Noncurrent Assets                                    |                           |
| Notes and pledges receivable                         | 49,066                    |
| Endowment and life income investments                | 1,881,199                 |
| Investments for capital activities                   | 243,351                   |
| Fixed assets, net of accumulated depreciation of     | 1,169,309                 |
| Total Noncurrent Assets                              | <u>\$3,342,925</u>        |
| <b>TOTAL ASSETS</b>                                  | <u><b>\$4,170,166</b></u> |

**LIABILITIES**

|   |                         |
|---|-------------------------|
| Current Liabilities                                   |                         |
| Accounts payable                                      | 124,270                 |
| Accrued compensation and other                        | 91,778                  |
| Current portion of insurance and benefits reserves    | 13,643                  |
| Deposits held in custody for others                   | 9,620                   |
| Deferred revenue                                      | 80,064                  |
| Commercial paper and current portion of bonds payable | 58,666                  |
| Total Current Liabilities                             | <u>\$378,041</u>        |
| Noncurrent Liabilities                                |                         |
| Deposits of affiliates                                | 23,681                  |
| Insurance and benefits reserves                       | 78,124                  |
| Obligations under life income agreements              | 16,036                  |
| Bonds Payable   | 274,494                 |
| Total Noncurrent Liabilities                          | <u>\$392,335</u>        |
| <b>TOTAL LIABILITIES</b>                              | <u><b>\$770,376</b></u> |

**NET ASSETS**

|   |                                  |
|---|----------------------------------|
| Invested in capital assets, net of related debt | 851,552                          |
| Restricted--nonexpendable                       | 596,226                          |
| Restricted--expendable                          |                                  |
| Research  | 186,079                          |
| Student financial aid                           | 115,791                          |
| Capital   | 114,743                          |
| Loans   | 96,671                           |
| Other   | 92,568                           |
| Unrestricted                                    | 1,346,160                        |
| <b>TOTAL NET ASSETS</b>                         | <u><u><b>\$3,399,790</b></u></u> |